

## EU climate action: provisional agreement reached on Carbon Border Adjustment Mechanism (CBAM)

Negotiators of the Council and the European Parliament reached an agreement of a **provisional and conditional** nature on the **Carbon Border Adjustment Mechanism (CBAM)**. The agreement needs to be confirmed by ambassadors of the EU member states, and by the European Parliament, and adopted by both institutions before it is final.

I am very pleased that we reached this agreement today. The Carbon Border Adjustment Mechanism is a key part of our climate action. This mechanism promotes the import of goods by non-EU businesses into the EU which fulfil the high climate standards applicable in the 27 EU member states. This will ensure a balanced treatment of such imports and is designed to encourage our partners in the world to join the EU's climate efforts.

*Jozef Síkela, Minister of Industry and Trade of Czechia*

This provisional agreement is dependent on some aspects which are relevant for CBAM but need to be spelled out in other pieces of legislation on which negotiations are still ongoing. The Council presidency considers that the CBAM regulation can be **formally adopted only once the elements relevant for CBAM are resolved in other related dossiers**.

Concerning the products and sectors which fall within the scope of the new rules, CBAM will initially cover a number of specific products in some of the most carbon-intensive sectors: **iron and steel, cement, fertilisers, aluminium, electricity and hydrogen, as well as some precursors and a limited number of downstream products**. **Indirect emissions** would also be included in the regulation in a well-circumscribed manner.

Under the provisional agreement, CBAM will begin to **operate from October 2023 onwards**. Initially, a simplified CBAM would apply essentially with **reporting obligations only**. The aim is to collect data. **From then onwards, the full CBAM will kick in**. It would be phased in gradually, in parallel to a phasing out of the free allowances, once it begins under the revised EU emissions trading system (ETS) for the sectors concerned. This will ensure compatibility of CBAM with international rules on trade.

The phasing out of free allowances for CBAM sectors still needs to be agreed in the context of the ongoing **EU ETS negotiations**. Further work is also required on measures to prevent carbon leakage on exports.

Ensuring full compatibility of CBAM with international obligations of the EU, including in the area of international trade, remains of fundamental importance.

The financing of administrative expenses of the European Commission, which will take on many centralised CBAM-related administrative tasks, will need to be decided in accordance with the annual **EU budget procedure**.

### Background

The Commission presented its proposal for a regulation establishing a carbon border adjustment mechanism on 14 July 2021. It addresses greenhouse gas emissions embedded in certain goods listed in Annex I of the proposal, upon their importation into the customs territory of the Union, in order to prevent the risk of carbon leakage.

CBAM targets **imports of products in carbon-intensive industries**. The objective of CBAM is to prevent - in full compliance with international trade rules - that the greenhouse gas emissions reduction efforts of the EU are offset by increasing emissions outside its borders through relocation of production to non-EU countries (where policies applied to fight climate change are less ambitious than those of the EU) or increased imports of carbon-intensive products.

CBAM is designed to function in parallel with the EU's Emissions Trading System (EU ETS), to mirror and complement its functioning on imported goods. It will gradually replace the existing EU mechanisms to address the risk of **carbon leakage**, in particular the free allocation of EU ETS allowances.

Technical work on the proposal took place in an Ad Hoc Working Party on CBAM, which the Council specifically established for negotiations on this proposal. The Council reached its position (general approach) on the proposed regulation on 15 March 2022. The European Parliament voted its position on 22 June 2022. Trilogue negotiations between the co-legislators started on 11 July and ended in the provisional agreement reached today.

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## Deal reached on new carbon leakage instrument to raise global climate ambition

- Scope extended to hydrogen, certain precursors and indirect emissions and some downstream products
- CBAM rules to apply from 1 October 2023 with a transition period
- New rules in full compliance with World Trade Organisation rules

**On Tuesday morning, MEPs reached a provisional agreement with Council to set up an EU Carbon Border Adjustment Mechanism to combat climate change and prevent carbon leakage.**

According to the deal reached, an EU Carbon Border Adjustment Mechanism (CBAM) will be set up to equalise the price of carbon paid for EU products operating under the [EU Emissions Trading System](#) (ETS) and the one for imported goods. This will be achieved by obliging companies that import into the EU to purchase so-called CBAM certificates to pay the difference between the carbon price paid in the country of production and the price of carbon allowances in the EU ETS.

The law will incentivise non-EU countries to increase their climate ambition. Only countries with the same climate ambition as the EU will be able to export to the EU without buying CBAM certificates. The new rules will therefore ensure that EU and global climate efforts are not undermined by production being relocated from the EU to countries with less ambitious policies.

The new bill will be the first of its kind. It is designed to be in full compliance with World Trade Organisation (WTO) rules. It will apply from 1 October 2023 but with a transition period where the obligations of the importer shall be limited to reporting. To avoid double protection of EU industries, the length of the transition period and the full phase in of the CBAM will be linked to the phasing out of the free allowances under the ETS. This will be negotiated later this week in connection with the revision of the ETS and the results integrated into the CBAM regulation.

### The scope of CBAM

CBAM will cover iron and steel, cement, aluminium, fertilisers and electricity, as proposed by the Commission, and extended to hydrogen, indirect emissions under certain conditions, certain

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1 | 3

precursors as well as to some downstream products such as screws and bolts and similar articles of iron or steel.

Before the end of the transition period the Commission shall assess whether to extend the scope to other goods at risk of carbon leakage, including organic chemicals and polymers, with the goal to include all goods covered by the ETS by 2030. They shall also assess the methodology for indirect emissions and the possibility to include more downstream products.

The governance of CBAM will be now more centralised, with the Commission in charge of most of the tasks. By the end of 2027, the Commission will do a complete review of CBAM including an assessment of progress made in international negotiations on climate change, as well as the impact on imports from developing countries, in particular the least developed countries (LDCs).

### Quote

After the deal, rapporteur [Mohammed Chahim \(S&D, NL\)](#), said: "CBAM will be a crucial pillar of European climate policies. It is one of the only mechanisms we have to incentivise our trading partners to decarbonise their manufacturing industry. On top of this, it is an alternative to our current carbon leakage measures, which will allow us to apply the polluter pays principle to our own industry. A win-win situation."

A press conference with the rapporteur and Pascal Canfin (Renew, FR), the Chair of the Committee on Environment and Public Health is scheduled for Tuesday morning at 09.30 CEST in Strasbourg. [More information on how to follow here.](#)

### Next steps

This partial deal is dependent on an agreement on the reform of the EU Emissions Trading System. Parliament and Council will have to formally approve the agreement before the new law can come into force. The new law will come into force 20 days after its publication in the EU Official Journal.

### Background

CBAM is part of the "[Fit for 55 in 2030 package](#)", which is the EU's plan to reduce greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels in line with [the European Climate Law](#).

### Further information

[Steps of the procedure](#)

[Press conference with the rapporteur and ENVI Chair \(13.12.2022 at 09.30 CEST\)](#)

[EP Think Tank: EU carbon border adjustment mechanism \(20.06.2022\)](#)

[EP Think Tank: Infographic on Fit for 55 in 2030](#)

[Free photos, video and audio material: Fit for 55 in 2030](#)

[Committee on the Environment, Public Health and Food Safety](#)

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2 | 3

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3 | 3

## G7 Leaders' Statement

We, the Leaders of the Group of Seven (G7), met on 12 December, to reflect on progress of our cooperation under Germany's Presidency to jointly address global challenges at a time of severe geopolitical crisis and critical moment for the world economy. We were joined by Ukraine's President Volodymyr Zelenskyy. This year in the face of Russia's illegal, unjustifiable and unprovoked war of aggression against Ukraine, we stood more united than ever, together with Ukraine and in unwavering commitment to our shared values, the rules-based multilateral order and international cooperation.

Today, we reaffirm our unwavering support for and solidarity with Ukraine in the face of ongoing Russian war of aggression for as long as it takes. We condemn Russia's continuous inhumane and brutal attacks targeting critical infrastructure, in particular energy and water facilities, and cities across Ukraine, and recall that indiscriminate attacks and attacks on the civilian population or civilian objects, constitute a war crime. We also condemn those who are facilitating Putin's illegal war. We are determined to help Ukraine repair, restore and defend its critical energy and water infrastructure. We will help Ukraine in meeting its winter preparedness needs, will continue to support Ukraine's civilian resilience, and will further enhance our efforts on this during the international conference to be held in Paris on 13 December. We are determined that Russia will ultimately need to pay for the restoration of critical infrastructure damaged or destroyed through its brutal war. There can be no impunity for war crimes and other atrocities. We will hold President Putin and those responsible to account in accordance with international law. We reiterate that Russia's irresponsible nuclear rhetoric is unacceptable and that any use of chemical, biological, or nuclear weapons would be met with severe consequences.

Building on our commitments so far, we will continue to galvanise international support to help address Ukraine's urgent short-term financing needs. We ask our Finance Ministers to convene shortly to discuss a joint approach for coordinated budget support in 2023. We affirm that the International Monetary Fund (IMF) should be central to this effort.

We firmly support efforts to secure Ukraine's immediate financial stability and its recovery and reconstruction towards a sustainable, prosperous and democratic future, in line with its European path. We will build on the outcomes of the International Expert Conference on the Recovery, Reconstruction and Modernisation of Ukraine held on 25 October in Berlin, as well as at the Ukraine Recovery Conference on 21-22 June 2023 in London. In particular, with a view to supporting Ukraine's repair, recovery and reconstruction, together with Ukraine and our international partners and in close coordination with relevant International Organisations and International Financial Institutions, we will establish a multi-agency Donor Coordination Platform. Through this platform, we will coordinate existing mechanisms to provide ongoing short- and long-term support – with particular responsibility of the Finance Track for short-term financial support –, coordinate further international funding and expertise, and encourage Ukraine's reform agenda as well as private sector led growth. We will also set up a Secretariat for the Platform. We will each designate a senior government representative to oversee the set-up of the platform and ongoing coordination efforts, and ask them to convene as soon as possible in January 2023.

With a view to a viable post-war peace settlement, we remain ready to reach arrangements together with Ukraine and interested countries and institutions on sustained security and other commitments to help Ukraine defend itself, secure its free and democratic future, and deter future Russian aggression in line with its rights enshrined in the Charter of the United Nations (UN Charter).

We will continue to coordinate efforts to meet Ukraine's urgent requirements for military and defense equipment with an immediate focus on providing Ukraine with air defense systems and capabilities.

We also reiterate our strong condemnation of Russia's continued seizure and militarisation of Ukraine's Zaporizhzhya Nuclear Power Plant, the abduction and reported abuse of Ukrainian personnel, and the willful destabilisation of its operations. We support the International Atomic Energy Agency's (IAEA) efforts to establish a Safety and Security Zone.

Russia's war of aggression must end. To date, we have not seen evidence that Russia is committed to sustainable peace efforts. Russia can end this war immediately by ceasing its attacks against Ukraine and completely and unconditionally withdrawing its forces from the territory of Ukraine. We welcome and support President Zelenskyy's initiative for a just peace.

We remain committed to our unprecedented coordinated sanctions measures in response to Russia's war of aggression. We will maintain and intensify economic pressure on Russia and those who evade and undermine our restrictive measures. We will continue to shield vulnerable countries that are severely impacted by the repercussions of Russia's war of aggression and its weaponisation of energy and food.

We reaffirm our intention to phase out Russian-origin crude oil and petroleum products from our domestic markets. During the week of 5 December 2022, the price cap on seaborne Russian crude oil entered into force in our respective jurisdictions, delivering on our commitment to limit Russia from profiting from its war of aggression against Ukraine, to support stability in global energy markets and to minimise negative economic spillovers of Russia's war of aggression, especially on low- and middle-income countries. We encourage third countries that seek to import seaborne Russian-origin crude oil and petroleum products to leverage the price cap. We reiterate our decision that the price cap on Russian origin petroleum products will enter into force on 5 February 2023.

Russia's war in Ukraine is exacerbating existing fragilities in the global economy, with direct impacts on the cost of living of people in our own countries, and on the world's most vulnerable. We will continue to use all available policy tools to maintain global financial, macroeconomic and price stability and long-term fiscal sustainability, while providing targeted support to those most in need and working collaboratively to strengthen our collective economic security to external shocks and wider risks. We will make public investments and structural reforms to promote long term growth. We will further coordinate to respond to the urgent needs of most vulnerable countries and will encourage private investment in developing and emerging markets as a key enabler of sustainable economic pathways.

We will keep up our ambition to address global food insecurity, including through the Global Alliance for Food Security (GAFS). We will keep supporting the delivery of grain and fertilisers to vulnerable countries in need and welcome the recent operations led by the World Food Programme (WFP) on this front. We welcome the extension of the Black Sea Grain Initiative (BSGI) alongside further efforts to bring Ukrainian food to the world, namely the European Union's Solidarity Lanes and the Grain from Ukraine Initiative.

Reaffirming our steadfast commitment to implement the Paris Agreement and the outcomes of COP26 and COP27, we commit to urgent, ambitious, and inclusive climate action in this decade to limit global warming to 1.5°C above pre-industrial levels. We reaffirm our commitment to reach net-zero emissions no later than 2050. To that end, and building on our statement adopted in June in Elmau, we endorse the Climate Club's terms of reference as established by the Climate Club Task Force and hereby establish an open and cooperative international Climate Club. Focusing in particular on the decarbonisation of industries, we will thereby contribute to unlocking green growth. We invite international partners to join the Climate Club and to participate in the further elaboration of its concept and structure. In doing so, we will continue working closely together with relevant International Organisations and stakeholders. We ask the Organisation for Economic Cooperation and Development (OECD), in tandem with the International Energy Agency (IEA), to host an interim secretariat working together with other International Organisations.

Recalling our commitment to halt and reverse biodiversity loss by 2030, we will work intensively towards a successful outcome at Convention of Biological Diversity (CBD) COP15, in particular the adoption of an ambitious and effective global biodiversity framework, with clear and measurable targets and its prompt and swift implementation. In this regard we are committed to mobilising resources from all sources and to substantially increasing our national and international funding for nature by 2025 to support the implementation of an ambitious global framework. We encourage countries beyond the G7 to join us in this endeavor.

Accelerating our contributions to the Partnership for Global Infrastructure and Investment (PGII) to make our global partners a better offer on sustainable, inclusive, climate-resilient, and quality infrastructure investment, we welcome the progress on the Just Energy Transitions Partnerships (JETP) with South Africa and Indonesia as flagship projects for multilateral cooperation, just energy transition and sustainable investment and look forward to swiftly concluding negotiations on a JETP with Vietnam, as well as to making further progress with India and Senegal. We will intensify our cooperation within a PGII working group to deliver on our joint ambition to mobilise up to 600 billion dollars by 2027, and on JETPs, we will coordinate through the JETP working group.

Reaffirming our full commitment to realise gender equality and to consistently mainstream gender equality into all policy areas, we welcome the key recommendations by the Gender Equality Advisory Council (GEAC) and look forward to receiving the GEAC's full report by the end of the year. We thank this year's GEAC for its important work, reiterate our intention to convene the GEAC as a standing feature of all G7 Presidencies, and look forward to further strengthening it.

This year, we have achieved progress to improve the global health architecture with the World Health Organization (WHO) at its core, our capacity to prevent, prepare for and respond to future global health emergencies and to achieve universal health coverage, especially through the G7 Pact for Pandemic Readiness endorsed in Elmau. We welcome the successful Seventh Replenishment of the Global Fund for AIDS, Tuberculosis and Malaria (Global Fund). We will step up our efforts on training and qualifying health workforce as well as strengthening surveillance capacities to detect outbreaks and variants as early as possible by integrating the One Health approach. We will continue to support science to develop safe and effective vaccines, therapeutics, and diagnostics.

Under the German Presidency, we, the G7, together with other international partners, have demonstrated our resolve to jointly addressing both major systemic challenges and immediate crises of our time. Our commitments and actions pave the way for progress towards an equitable world. As we look to the 2023 G7 Summit in Hiroshima under the Japanese Presidency, and in our support to the Indian G20 Presidency, we stand strong, united and absolutely committed to rebuilding a peaceful, prosperous and sustainable future for all.

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